

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-01 /084 W

-----029964 241120Z /21

R 240719Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4149

INFO AMCONSUL HONG KONG

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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: N/A

TAGS: EFIN, EALR, RP

SUBJECT: CENTRAL BANK RESTRUCTURING OF STANDBY CREDITS
AND GOP BORROWINGS ABROAD

1. SUMMARY. THE CENTRAL BANK IS ENGAGED IN RESTRUCTURING ABOUT \$1.15 BILLION IN STANDBY CREDITS AND TERM LOANS WHICH WERE NEGOTIATED BETWEEN 1973 AND 1976. DRAWINGS AGAINST THESE CREDIT LINES HAVE BEEN SMALL AND THE COMMITMENT FEES EXPENSIVE. THE LINES WILL BE REDUCED TO \$525 MILLION AND CONVERTED ENTIRELY TO REVOLVING CREDITS WITH TERMINATION DATES OF 1981 OR 1983. THE GOP HAS THIS YEAR MADE BORROWINGS AMOUNTING TO ABOUT \$172 MILLION, IN THE FORM OF DIRECT BORROWINGS AND BOND ISSUES. OVER HALF OF THESE BORROWINGS HAVE BEEN IN THE MIDDLE EAST AND JAPAN, PRIMARILY TO ESTABLISH PHILIPPINE CREDIT IN THOSE MARKETS. TAKEN TOGETHER, THESE MOVES SPEAK WELL FOR GOP CAPACITY FOR DEBT MANAGEMENT. END SUMMARY.

2. A SOURCE FROM A MAJOR U.S. BANK WHICH HAS BEEN
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INVOLVED IN ALL MAJOR GOP FOREIGN BORROWING ACTIVITY FOR SEVERL YEARS HAS PROVIDED BACKGROUND ON CENTRAL BANK (CB) PLANS TO RESTRUCTURE ITS STANDBY CREDITS. A CB PRESS RELEASE APPEARED ON AUGUST 23, CONFIRMING THE CREDIT RESTRUCTURING.

3. DURING THE PERIOD 1973-76, THE CB ARRANGED, IN NINE

SEPARATE SYNDICATIONS, A TOTAL OF APPROXIMATELY \$1.15 BILLION OF STANDBY REVOLVING AND TERM CREDITS. THE PURPOSE OF THESE STANDBY CREDITS HAS BEEN TO PROTECT INTERNATIONAL RESERVES AGAINST FLUCTUATIONS CAUSED BY INCREASED COSTS FOR IMPORTS AND RADICAL CHANGES IN EARNINGS FROM COMMODITY EXPORTS.

4. THE PROPOSED RATIONALIZATION OF THESE VARIOUS CREDIT FACILITIES WOULD REDUCE TOTAL CREDIT LINES BY ABOUT HALF. THE CB AND THE CREDITORS HAVE AGREED TO A PLAN, WHICH IS SCHEDULED TO BE SIGNED BY CB GOVERNOR LICAROS IN NEW YORK FOLLOWING THE IMF/WORLD BANK MEETINGS IN WASHINGTON.

FOLLOWING IS A SUMMARY OF THE PROPOSAL. (AMOUNTS ARE IN US DOLLARS UNLESS OTHERWISE INDICATED):

YEAR	AMOUNT	PRESENT		TERMINATION		PROPOSED	
		CREDIT	DATE	CREDIT	DATE	CREDIT	DATE

1973	50	REV	1978	TERMINATE	1977	
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1974	150	REV	1979	75	REV	1981
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1974	200	REV	1979	100	REV	1981
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1974	150	REV	1979	75	REV	1981
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1974	150	REV	1979	75	REV	1981
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1976	200	TERM	1797/	100	REV	1983
			1981			

1976	100	TERM	1979/	50	REV	1983
			1981			

1976	100	TERM	1979/	50	REV	1983
			1981			

1976	15BIL	TERM	1979/	TERMINATE	1977
	YEN		1981		

TOTALS \$1,150 MIL. (APPROX) \$525 MIL.

THE INTEREST ON DRAWN FUNDS WILL BE REDUCED FROM THE PRESENT 1 3/4 PERCENT OVER THE LONDON INTERBANK OFFER RATE (LIBO) TO 1 3/8 PERCENT OVER LIBO.

5. ACCORDING TO OUR SOURCE, THIS RATIONALIZATION IS BEING UNDERTAKEN FOR TWO BASIC REASONS. FIRST, TERMINATION OR AMORTIZATION DATES FOR THE VARIOUS FACILITIES ARE PRESENTLY BUNCHED UP, ESPECIALLY IN 1979, WHICH IS UNDESIRABLE FROM A DEBT MANAGEMENT POINT OF VIEW. SECONDLY, COMMITMENT FEES (ONE-HALF PERCENT PER YEAR) AMOUNT TO ABOUT \$6 MILLION PER YEAR, FOR FACILITIES WHICH EXCEED FORESEEABLE BORROWING NEEDS. AT MOST, \$159 MILLION HAS BEEN DRAWN AGAINST THESE FACILITIES,

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FM AMEMBASSY MANILA
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MOST OF THIS HAS BEEN REPAID; VERY LITTLE IS PRESENTLY OUTSTANDING. THE REASON THESE FACILITIES HAVE NOT BEEN TAPPED MORE HEAVILY IS THAT THE CB HAS BEEN ABLE TO MEET ITS COMPENSATORY BORROWING NEEDS MORE CHEAPLY BY BORROWING SHORT TERM (6 MONTHS). THE COMBINATION OF A STEADILY IMPROVING PHILIPPINE CREDIT RATING AND HIGH INTERNATIONAL LIQUIDITY HAS RESULTED IN FUND AVAILABILITIES AT RATES OF APPROXIMATELY ONE-HALF PERCENT OVER LIBO. THE BORROWINGS ARE MADE LARGELY FOR OIL PAYMENTS, AND A CB SOURCE STATED THAT OUTSTANDINGS REACHED \$450 MILLION FIRST YEAR. HE CLAIMED THAT

CURRENT OUTSTANDINGS ARE ABOUT \$50 MILLION, IN OTHER WORDS, THE CB HAS FOUND ITSELF IN A SENSE OVER-INYREER AGAINST BALANCE OF PAYMENTS DIFFICULTIES, WITH A PREMIUM IN THE FORM OF COMMITMENT FEES WHICH WAS A SIGNIFICANT

DRAIN ON RESOURCES. THE NEW PLAN SHOULD REDUCE THESE FEES FROM \$6 MILLION TO ABOUT \$2MY MILLION PER YEAR.

6. IT IS WORTH NOTHING THAT WHILE THE PHILIPPINE LIMITED OFFICIAL USE

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BALANCE OF TRADE HAS INDEED RECENTLY IMPROVED, AND WHILE THIS ASPECT HAS RECEIVED CENTRAL ATTENTION IN PRESS TREATMENT OF THESE CREDIT LINE REDUCTIONS, TRADE DEFICITS ARE EXPECTED TO PERSIST. BALANCE OF TRADE CONSIDERATIONS WERE THEREFORE ONLY ONE CONSIDERATION IN THE RESTRUCTURING PLAN.

7. IT MAY BE USEFUL TO REVIEW IN THIS TELEGRAM OTHER GOP BORROWING ACTIVITY SO FAR THIS YEAR, WHICH HAS CENTERED ON THE MIDDLE EAST AND JAPAN. THESE HAVE BEEN A COMBINATION OF BOND ISSUES AND DIRECT LOANS, AND WHAT WE KNOW OF THEM IS LISTED BELOW.

		US \$							
DATE	COUNTRY	AMOUNT	EQUIVALENT	TYPE	TERM	PURPOSE			
MARCH	BAHRAIN	8 MIL.	\$20-23 MIL.	BOND	7 YRS	MAGAT			
						ISSUE 9 PER DAM			
						CENT (LUZON)			
APRIL	SAUDI	\$19.5	\$19.5	DIRECT	20 YRS	COTABATO			
	ARABIA	MIL	MIL	LOAN	3 - 3.5	POWER			
						PER PROJECT			
						CENT			
APRIL	KUWAIT	5 MIL	\$17T MIL	BOND	6 YRS	ZAMBOANGA			
		DINARS				ISSUE 9 PER ELECTRIFI-			
						CENT CATION			
	KUWAIT	\$12.28	\$12.28	DIRECT	UNK	NATIONAL			
		MIL	MIL	LOAN	POWER				
						CORPORATION			
JUNE	JAPAN	10 BIL.	\$38 MIL	BOND	10 YRS	INFRASTRUC-			
						LIMITED OFFICIAL USE			
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	YEN			ISSUE 8 1/2	TURE PRO-				
					PER JECTS				
					CENT				
JULY	EURO	\$65 MIL	\$65 MIL	DIRECT	UNK	KALAYAAN			

DOLLAR LOAN PUMPING
 STATIONS

8. ASIDE FROM THE EURO-DOLLAR LOAN, THE AMOUNTS OF THE ABOVE BORROWINGS ARE RELATIVELY SMALL, AND A CB OFFICIAL HAS TOLD US THAT THE PRIMARY PURPOSE BEHIND THEM IS TO ESTABLISH A TRACK RECORD, AGAINST THE TIME THE GOP MIGHT WISH TO MOBILIZE SUBSTANTIAL FUNDS FROM THESE SOURCES. AS INDICATED BY THEIR PURPOSE, HOWEVER, THEY WILL ALSO CONTRIBUTED MEASURABLY TO COUNTERPART FUNDING AND BUDGETARY SUPPORT FOR INFRASTRUCTURE PROJECTS.

9. EMBASSY UNDERSTANDS FROM GOP SOURCES THAT NO FURTHER BORROWINGS ARE PLANNED FOR THE BALANCE OF 1977.

10. COMMENT. SINCE SUBSTANTIAL TRADE ACCOUNT DEFICITS ARE LIKELY TO CONTINUE FOR AT LEAST THE NEXT FEW YEARS, DEBT MANAGEMENT WILL REMAIN A PARTICULARLY IMPORTANT COMPONENT OF OVERALL ECONOMIC POLICY. TAKEN TOGETHER THE RATIONALIZATION OF STANDBY CREDITS AND DIVERSIFICATION OF EXTERNAL BORROWING SOURCES SPEAKS WELL FOR GOP DEBT MANAGEMENT.
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Disposition Approved on Date:
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